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Ratings

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Society of Lloyd's (The)

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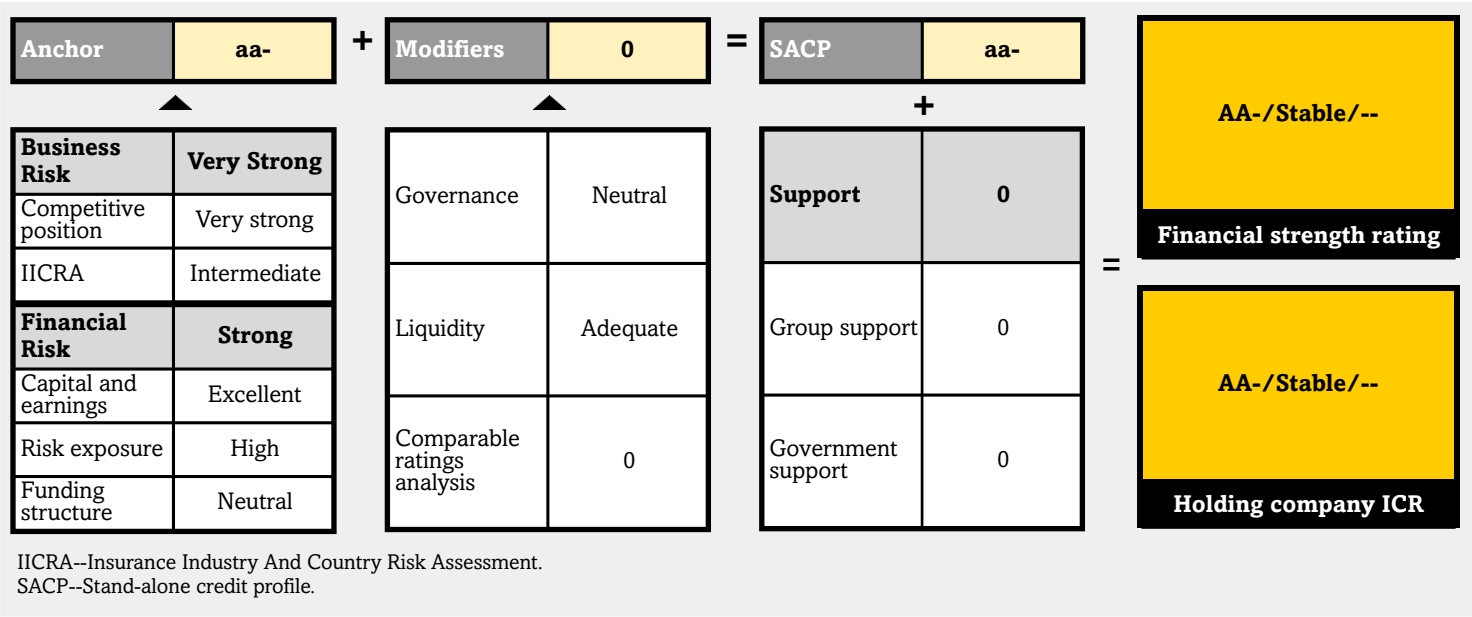


IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
The Society of Lloyd's (Lloyd's or the market) has a unique brand and reputation, based on its position at the center of underwriting specialist risks.	Lloyd's is more exposed to catastrophe risk than most of its peers in the wider insurance sector.
Revenue comes from diverse geographic locations across different business lines.	Management is undertaking a large modernization program, which carries execution risks.
Lloyd's robust risk-based capital exceeds the capital requirement for an extreme stress scenario, that is, at the 99.99% level.	
Strong underwriting oversight of the market is paying dividends, with a healthy underwriting result in 2022 and 2023.	

We expect Lloyd's management to maintain excellent capital and earnings. Our base-case assumption is that Lloyd's risk-based capital (measured using our model) will have sufficient capital to meet the requirements for an extreme stress scenario (99.99% confidence level) over 2024-2025. We forecast Lloyd's total adjusted capital (TAC) will be more than 10% above the capital requirements for the 99.99% confidence level over the same period. This will be supported by both strong earnings and capital calls on the syndicates if needed.

We forecast a combined ratio of 90%-95% during 2024-2025 (these figures are based on local U.K. generally accepted accounting principles [GAAP] accounting). This is considering annual major losses of close to 12 percentage points (ppts) in terms of the combined ratio, which is more than the wider insurance sector but similar to reinsurance peers. Considering the material rate rises that we saw over 2020-2023 (an average of 10% per year) we believe the rates will either remain at the same level or reduce slightly over 2025.

Lloyd's has a unique brand and position in the insurance industry, with a well-diversified premium base by geography and business line. It enjoys worldwide recognition and is considered a leading center for the writing of specialist insurance risks. We expect the market will continue to attract business and loyalty from brokers due to the depth of its underwriting expertise and face-to-face culture.

The Lloyd's market's premium is generated worldwide, albeit with a significant portion of the exposure emanating from the U.S. market. Lloyd's writes many of the commercial business lines in property/casualty (P/C) insurance (accounting for 67% of premium at year-end 2023) and reinsurance business (33% of premium at year-end 2023).

Management is focused on modernizing the market. Lloyd's introduced Blueprint Two in 2020, a key program building on its "Future at Lloyd's" plans to digitize the Lloyd's market. The scheduled target date of October 2024 for phase one of the roll-out has been delayed. We recognize that management is focused on managing the risk around this project, however, we believe such a major initiative does carry execution risk.

Outlook

The stable outlook reflects our view that Lloyd's management will maintain disciplined underwriting performance and continue to execute its expense reduction strategy. Furthermore, we expect Lloyd's will maintain its capitalization at an excellent level.

Downside scenario

We could take a negative rating action over the next 24 months if Lloyd's does not maintain profitability in line with that of its closest peers or if we believe its capital levels will not comfortably navigate extreme stress levels. This could occur if management:

- Does not maintain strong oversight over syndicates, particularly if the pricing conditions were to deteriorate against the current favorable rates;
- Compromises underwriting discipline through top-line growth; and
- Does not maintain the same level of close oversight on capital protection that helped it navigate the challenges posed during the COVID-19 pandemic, emergence of the Russia-Ukraine conflict, and rising inflation rates.

Upside scenario

We are unlikely to take a positive rating action over the next 24 months.

Key Assumptions

- Current conditions indicate a persistently resilient global economy. We forecast global GDP growth of 3.3% in 2024 and 3.2% in 2025.
- The long-awaited policy rate easing cycle has begun in some advanced economies as inflation continues to decline toward the target.

- We expect 10-year U.S. government bond yields of 4.2% in 2024 and 3.6% in 2025.
- The global reinsurance industry earned its cost of capital in 2023 for the first time in four years, and we expect it to do so in 2024-2025, solidifying our stable view of the sector.
- Despite signs of moderation in property pricing, we think overall conditions are still favorable, and we expect the industry will continue to post strong results with a combined ratio of 92%-96%, including a catastrophe load of 8-10 ppts and return on equity of 13%-15% in 2024-2025, barring any outsize catastrophe losses.

Lloyd's--Key metrics

	2025f	2024f	2023	2022	2021	2020	2019
Gross premium written (mil. £)	~58,000	~55,000	52,149	46,705	39,216	35,466	35,905
EBITDA	~7,000-8,000	~7,000-8,000	9,267	1,996	2,855	N/A	N/A
Net income (mil. £)	~7,000-8,000	~7,000-8,000	10,663	(769)	2,277	N/A	N/A
S&P Global Ratings capital adequacy*	99.99%	99.99%	99.99%	99.99%	AAA	Excellent	Excellent
Return on shareholders' equity (%)	>10.0	>10.0	25.3	(2.0)	6.6	N/A	N/A
Financial leverage ratio (%)	<3.0	<3.0	2.3	2.5	3.3	N/A	N/A
EBITDA fixed-charge coverage (x)	>30.0	>30.0	182.9	35.7	52.2	N/A	N/A
Net combined ratio (non-life, %)	90.0-95.0	90.0-95.0	84.0	91.9	93.5	110.3	102.1
Net loss ratio (%)	57.0-60.0	57.0-60.0	49.6	57.5	57.9	N/A	N/A
Net expense ratio (%)	33.0-35.0	33.0-35.0	34.4	34.4	35.6	N/A	N/A
Net investment yield (%)	~3.0	~3.0	3.9	(0.5)	1.8	2.2	3.5
Return on revenue (%)	>15.0	>15.0	22.7	6.2	10.1	N/A	N/A

*capital adequacy for 2022, 2023, 2024f and 2025f is as per new capital model. f--Forecast. GPW--Gross premium written. N/A--Not applicable.

Business Risk Profile: Very Strong

In our opinion, Lloyd's benefits from its unique brand. It is the world's largest subscription market and has a broad geographic presence from which it distributes its wide product offering. We believe the market's brand and reputation will continue to be key differentiators for the rating. The availability of one-stop shopping for various niche and standard products, the expertise of Lloyd's market underwriters, and the strong face-to-face culture will continue to attract policyholder and broker loyalty. We view this as a competitive strength.

We expect Lloyd's will continue to enjoy a leading position in the global specialty and reinsurance market. It consistently ranks among the top five global reinsurers--alongside peers Munich Re, Swiss Re, Hannover Re, and Scor--and among U.S. primary insurers like AIG and Chubb. Lloyd's has been the leading excess and surplus writer in the U.S. since 2011 and we expect it to retain this position. Lloyd's has also established itself as a key cyber risk writer over the past five years (2019-2023). In addition, the Lloyd's market is the leading (re)insurer for global marine and aviation business. Most of its revenue (about 75%) comes from the U.S., Canada, and the U.K.

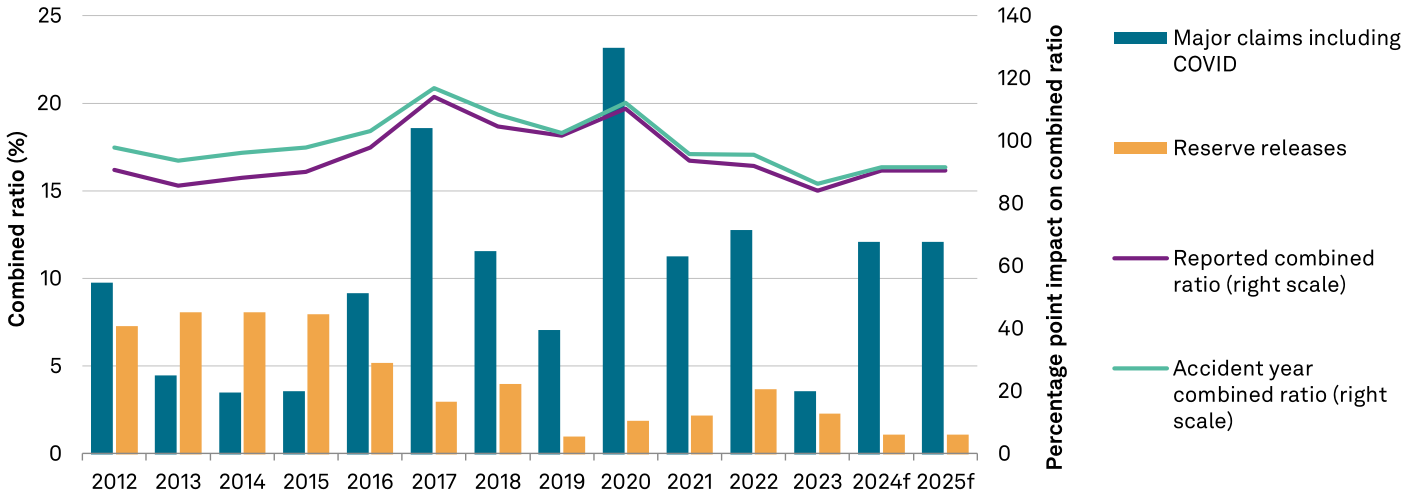
We expect Lloyd's will sustain profitable underwriting in 2024 and 2025 with a net combined ratio below 95% considering its strong book of business, underwriting discipline, and favorable pricing conditions. We consider annual major losses of close to 10-12 ppts in the combined ratio, which is above the wider insurance sector. Lloyd's reported a net combined ratio of 83.7% at half-year 2024, well within our expectation for the full year. Major claims experience

was benign in the first half of the year, losses mainly stemming from the Baltimore bridge collapse (£0.5 billion) and Taiwan earthquake (£0.1 billion), which contributed 3.1% to the net combined ratio.

Lloyd's underwriting performance compares well with European reinsurance peers, emphasizing strong oversight over syndicate performance and benign major loss experience during the year.

Chart 1

We expect Lloyd's will sustain strong underwriting performance in 2024-2025 after reporting a record net combined ratio in 2023



f--Forecast. Source: S&P Global Ratings.

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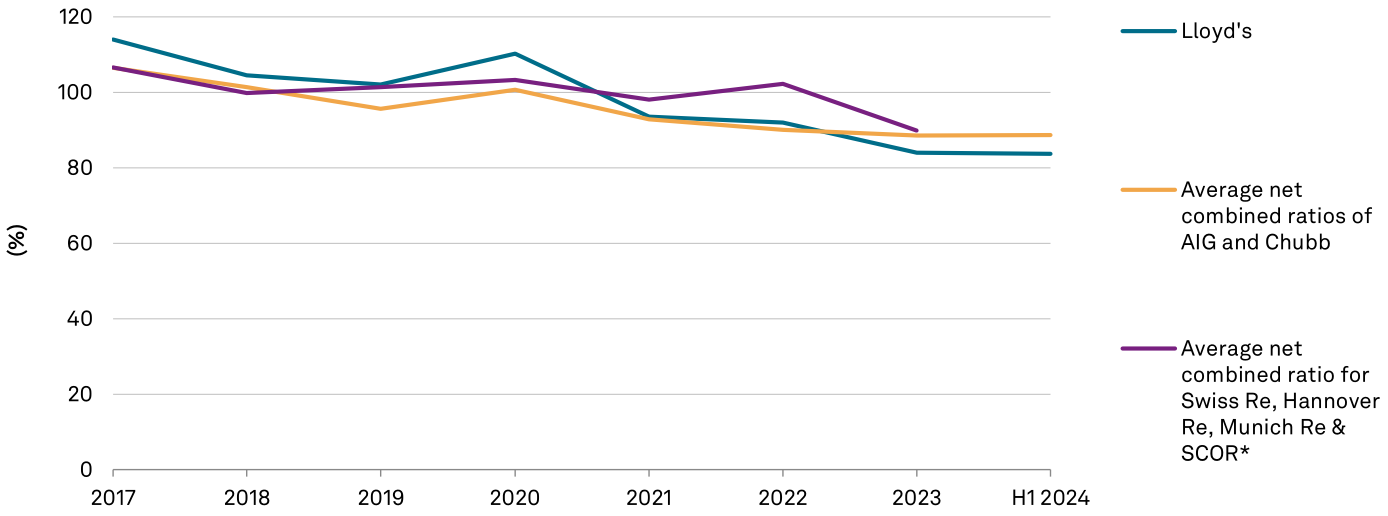
Chart 2

Lloyd's strong net combined ratio in 2023 compares well with U.S. primary insurers' performance and average performance of top global reinsurers



*2023 net combined ratio for Munich Re, Scor and Hannover Re and H1 2024 net combined ratio for Munich Re, Scor, Hannover Re and Swiss Re are on IFRS 17 basis. H1--First-half. IFRS--International financial reporting standards. Source: S&P Global Ratings.

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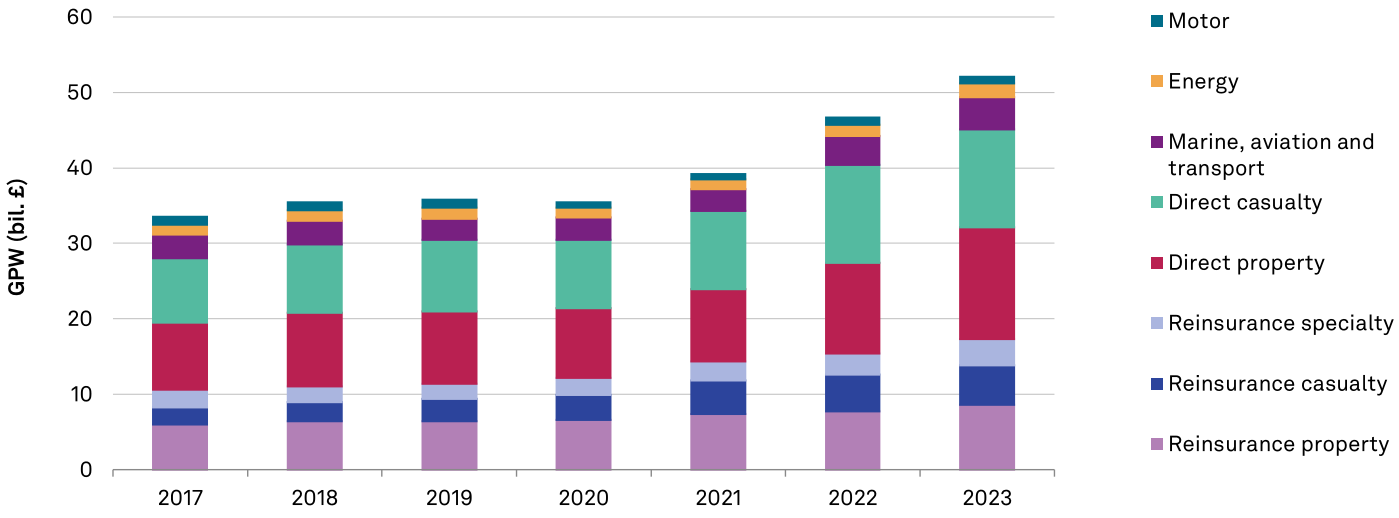
While we recognize there may be some downward pressure on rates, we expect the market to defend hard-earned rate rises over 2024. We expect the annual gross written premium base to expand to about £55 billion-£58 billion for both year-end 2024 and year-end 2025.

Chart 3

Positive pricing momentum leads Lloyd's toward top line growth



GPW--Gross premium written. Source: S&P Global Ratings.

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The management of Lloyd's is focused on digitizing the market to maintain its competitiveness against other major (re)insurance hubs, such as Bermuda, Zurich, and Singapore. We believe the Blueprint Two program is essential for Lloyd's to upgrade its legacy IT systems, simplify claims handling processes, and bring in overall operational efficiency. We note that the launch of Blueprint Two's phase one of the roll-out has been delayed and significant execution risk will remain during implementation.

We do not expect operational efficiencies achieved by Blueprint Two to materially reduce expenses associated with doing business at Lloyd's, which has been generally higher compared with peers. We forecast the expense ratio will be close to, or below, 35% in 2024-2025. The market's expense ratio was 34.5% for half-year 2024.

Financial Risk Profile: Strong

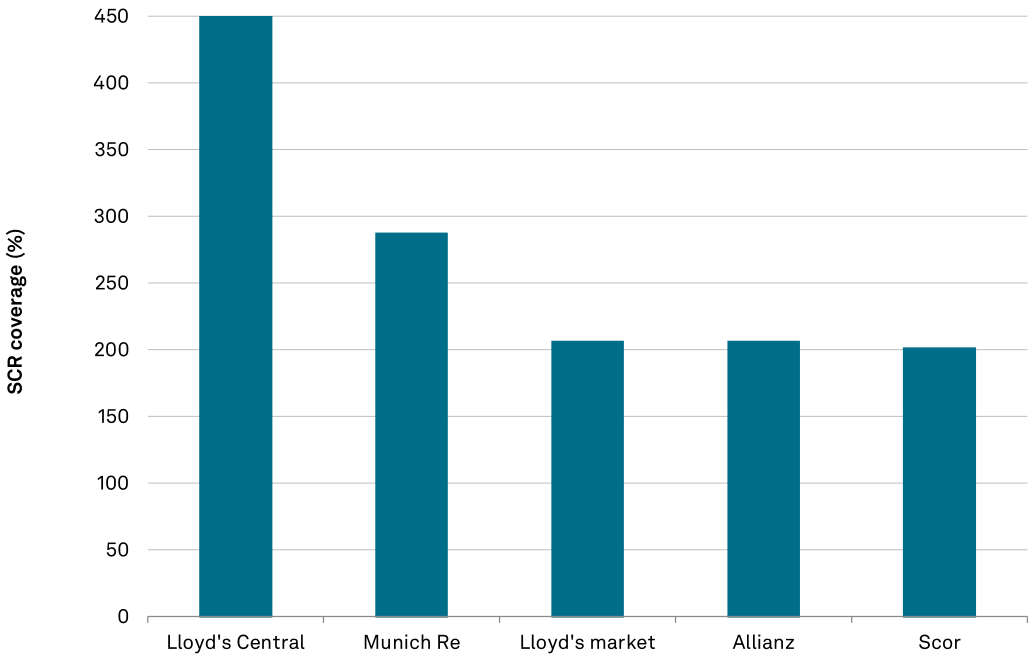
We expect Lloyd's to maintain robust capital levels exceeding requirement in extreme stress, that is, above the 99.99% level as measured by our risk-based capital model through 2024-2025. We expect the capital buffer above 99.99% to be above 30% in 2024-2025. We use consolidated accounts for Society of Lloyd's to calculate TAC, which includes member's funds, funds at Lloyd's, and central fund assets as per the consolidated accounts (see accounting section). We also recognize Lloyd's reserve surplus (syndicate view) in TAC.

In regulatory terms, Lloyd's continued to hold comfortable capital surpluses in both its half-year 2024 marketwide regulatory solvency ratio of 206% and its central solvency ratio of 520%.

In recent years, Lloyd's has acted quickly to address large claims events by accelerating capital collection from members. Should another significant claims event occur--like the 2017 hurricanes or the COVID-19 pandemic--we expect management will again seek to quickly address any capital shortfalls. Lloyd's has also renewed its multi-year reinsurance cover of £650 million to protect its central funds against such adverse events. We expect earnings will also translate into building capital levels to the extent needed. Furthermore, Lloyd's has substantially reduced its reliance on letters of credit during the past few years (24% in 2023 compared with 39% in 2017) and we do not expect the corporation to materially increase its reliance on them from the current level.

Chart 4

Lloyd's market wide solvency ratio is now comparable with peers, while central solvency remains stronger



As of H1 2024. H1--First-half. Source: Respective H1 2024 reports.

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Not all capital held by the corporation is fungible--only the central fund and corporation assets are available to pay all claims. However, the corporation's strong history of managing capital appropriately at the syndicate level offsets this risk. The most recent central fund loss was from the 2007 year of account. Lloyd's has also proven its ability to ask the market to recapitalize, as demonstrated in 2017 and 2020.

Lloyd's has a fairly conservative approach to investment and, as such, we expect future returns to increase marginally, reflecting increasing interest rates. According to our base-case scenario, Lloyd's will see net investment income of about 3.0%-4.0% over the next two years. Its recently launched investment platform with Schroders Solutions may provide an opportunity to reduce investment expense and increase returns. Lloyd's strong investment return of £2.1

billion in half-year 2024 reflects higher yields and the unwinding of unrealized losses on the bond portfolio incurred in recent years.

Fixed charge coverage has improved from year-end 2023 due to positive earnings, and will likely remain comfortably above 4x. Lloyd's minimal levels of financial leverage will likely be maintained below 3%.

Capital structure and equity content

Issuer	Issuance amount (mil. £)	Coupon (%)	Issue date	Maturity date	Equity content	ISIN
Senior						
Society of Lloyd's	60	2.48	2020	2030	No equity content	Private placement
Society of Lloyd's	40	2.48	2020	2031	No equity content	Private placement
Society of Lloyd's	70	2.61	2020	2035	No equity content	Private placement
Society of Lloyd's	130	2.81	2020	2045	No equity content	Private placement
Subordinated						
Society of Lloyd's	300	4.875	2017	2047	Intermediate equity content	XS1558089261
Society of Lloyd's	500	4.75	2014	2024	No equity content	XS1130913558

Other Key Credit Considerations

Governance

Our positive view of the market's governance reflects the significant expertise and experience of Lloyd's managing agents and the market's overall governance. Under the guidance of chairman Bruce Carnegie-Brown, management has made a positive impact. It demonstrated its willingness to address Lloyd's key challenges, as demonstrated by strong underwriting performance in 2021-2023.

We view positively the corporation's robust strategic planning process, which directorates relating to performance management and finance have established and improved in recent years. Initiatives such as stringent business planning process and benchmarking exercises have significantly improved performance standards and measurement. In particular, Lloyd's introduced Blueprint Two in 2020, a key program building on its "Future at Lloyd's" plans to digitize the Lloyd's market. The company also partnered with Schroders Solutions on a new investment platform in March 2022. These initiatives are in addition to the reinsurance cover purchased to protect the central fund.

Liquidity

Lloyd's premium income flow provides readily available liquidity and the market also has a highly liquid asset portfolio. Furthermore, the market's ability to call on members for capital injections throughout the year and withhold profits to ensure claims are paid is a positive factor for its liquidity assessment.

Environmental, social, and governance

In our view, Lloyd's is more exposed to environmental risks than the insurance industry average because it writes significant amounts of property reinsurance and insurance. However, Lloyd's catastrophe exposure is in line with that of most P/C reinsurance or specialty writers. Lloyd's exposure to environmental risks mainly stems from the prospect of increased claims from climate change-induced extreme weather events, including storms, wildfires, or floods. That

said, we recognize that Lloyd's, just like its peers, has the option to reprice its catastrophe contracts annually or cede the risks to help it absorb a gradual increase in claims.

Group support

We consider Lloyd's Insurance Co. S.A., Lloyd's Insurance Co. (China) Ltd., Lloyd's Kentucky, Inc., and Lloyd's Illinois, Inc. as core to Society of Lloyd's.

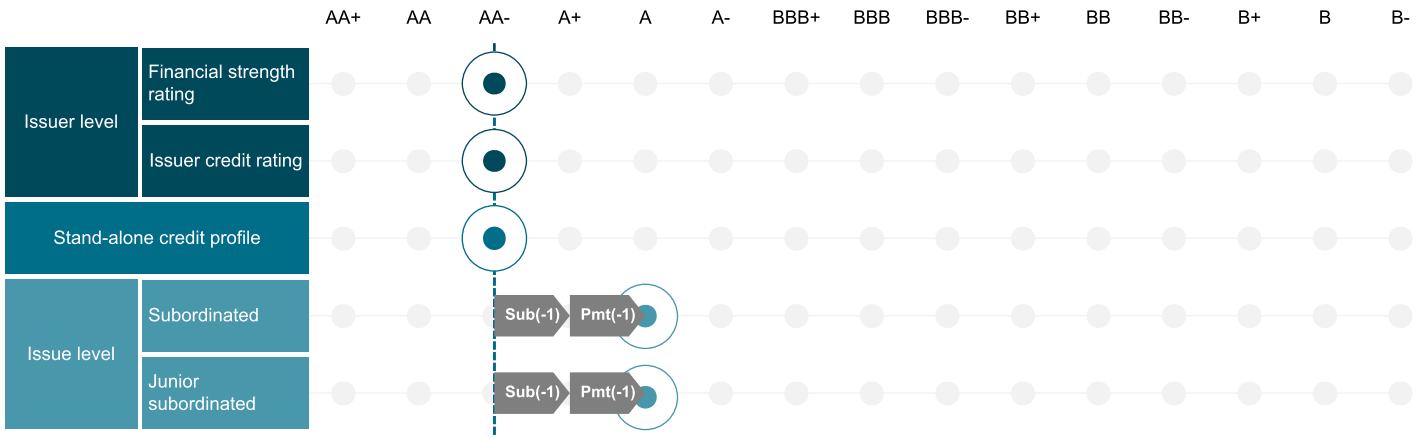
Accounting considerations

Although the Lloyd's market itself is not a legal entity, the corporation provides an audited pro forma set of financial statements that combine the financial results of the Lloyd's syndicates, members' funds at Lloyd's, and the results of the Society of Lloyd's. This allows comparison with other insurance companies. Where practicable, these accounts will continue to adhere to U.K. GAAP. We view the market's financial communication and disclosure as sound and transparent. We use the consolidated accounts as a starting point for our analysis of the market.

Hybrid and senior debt issue ratings

We rate Lloyd's debt instruments according to their respective features (see chart below).

Society of Lloyd's: Notching



Key to notching

----	Issuer credit rating
-----	Stand-alone credit profile
Sub	Contractual subordination
Pmt	Payment risk for example deferral of coupon or write-down or conversion

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on March 2, 2022.

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Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Society of Lloyd's Upgraded To 'AA–' From 'A+' On Strong Underwriting Discipline; Outlook Stable, Dec. 13, 2023

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	**Strong**	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	**aa-/a+**	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of October 15, 2024)*

Society of Lloyd's (The)	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Junior Subordinated	A
Subordinated	A
Related Entities	
Lloyd's Insurance Co. (China) Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Lloyd's Insurance Co. S.A.	
Financial Strength Rating	
Local Currency	AA-/Stable/--

Ratings Detail (As Of October 15, 2024)*(cont.)	
Underwriters at Lloyds of London, Illinois	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Underwriters at Lloyds of London, Kentucky	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Domicile	United Kingdom

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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